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Markets, Politics and Globalization: Can the Global Economy be Civilized?

BY

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The Prebisch Lectures were instituted in 1982 by Mr. Gamani Corea, the then Secretary-General of UNCTAD, to honour Dr. Raúl Prebisch, UNCTAD's founding father and first Secretary-General.

1st lecture, 1982: Dr. Raúl Prebisch

2nd lecture, 1983: Mrs. Indira Gandhi, Prime Minister of India, during UNCTAD VI in Belgrade

3rd lecture, 1987: Dr. Saburo Okita, Japan, during UNCTAD VII in Geneva

4th lecture, 1989: Academician Abel G. Aganbegyan, a principal economic adviser of the former USSR, on the occasion of the twenty-fifth anniversary of UNCTAD in Geneva

5th lecture, 1992: Delivered jointly by Dr. Bernard T. Chidzero, Senior Minister of finance, Economic Planning and Development of Zimbabwe; Mr. Michel Rocard, former Prime Minister of France; and Mr. Enrique Iglesias, President of the Inter-American Development Bank, during UNCTAD VIII in Cartagena de Indias

6th lecture, 1994 Professor John H. Dunning, Professor of International Business at the State University of New Jersey, on the occasion of UNCTAD's thirtieth anniversary, in Geneva

7th lecture, 1996 Professor Jagdish Bhagwati, Arthur Lehman Professor of Economics at Columbia University, New York, during UNCTAD IX in Midrand, South Africa

8th lecture, 1997 Professor Dani Rodrik, Rafiq Hariri Professor of International Political Economy, John F. Kennedy School of Government, Harvard University, in Geneva

9th lecture, 1998 Dr. Joseph Stiglitz, Senior Vice-President, Development Economics and Chief Economist, World Bank, Washington, D.C.

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Welcoming address by Mr. Rubens Ricupero, Secretary-General of UNCTAD

If there are outstanding economists who need no introduction to an audience concerned with trade and development issues, Prof. Gerry Helleiner is one of them.

Currently Professor Emeritus and Distinguished Research Fellow at the University of Toronto, as well as member of the Executive Board of the African Capacity-Building Foundation based in Harare, Prof. Helleiner has had a long intellectual involvement in North-South issues, an involvement which goes as far back as 1962, when he obtained a Ph.D. degree at Yale University. Ever since, he has devoted much of his professional career to improving our understanding of the problems affecting the Third World and to studying how international policy action can help to deal with and overcome such problems.

Author and editor of a great number of books on trade, finance and development, several of them with special reference to Africa, he has recently edited and introduced a book on the burning issue of capital account regimes and the developing countries. He is now working on another book, dealing with non-traditional export promotion in Africa.

Professor Helleiner has been at the core of several important research initiatives. One of the most outstanding was the establishment of the North-South Institute, where he served as Vice-Chairman, then Chairman, for many years.

It is no wonder that Prof. Helleiner's advice on international policy has been widely solicited. From 1990 until recently, he was Research Director of the Group of 24 (the developing countries' caucus at IMF and the World Bank). He has been a consultant to a wide range of Governments and international institutions. We in UNCTAD have, on more than one occasion, reaped the benefits of his enlightened policy approaches on issues as varied as transfer of technology, transnational corporations and macroeconomic policy.

The subject matter Prof. Helleiner will be addressing today is of utmost importance. The title speaks for itself: **Markets, Politics and Globalization: Can the Global Economy be Civilized?** First of all, it highlights how much markets and politics are deeply intertwined, and how much one influences the other, for good or for bad. Secondly, it emphasizes that the interaction of markets and politics influences the direction globalization can, and indeed does, take. This world phenomenon could operate in favour of all mankind. Unfortunately, as is currently the case, it can also serve to widen economic and social differences, benefit the few and create new sources of concern. Finally, the question raised in the title is central to the preoccupation of all those present in this conference room: Can the global economy be civilized? This implies that, in its present form, the global economy lacks a human dimension. It is the responsibility of the international community to inject such a dimension into the globalization process.

It is with great pleasure that I give the floor to Prof. Helleiner.

MARKETS, POLITICS AND GLOBALIZATION: CAN THE GLOBAL ECONOMY BE CIVILIZED?

Prologue

I am deeply honoured by UNCTAD's invitation to deliver the tenth Raúl Prebisch Lecture in this Millennial Year. I was a great admirer of Raúl Prebisch and his work at ECLA/CEPAL, UNCTAD and elsewhere. I hope I will be able to do honour to his memory. It will be a challenge.

I hope I may be forgiven if I begin with an anecdote about my most memorable encounter with Dr Prebisch. As a much younger man, I knew him at first only from a distance; and I am pretty confident he didn't know me. At a huge international conference on banking and finance, held in Dubrovnik in earlier, happier times there (I think it was in 1980), I was to present a paper on foreign exchange risk and the advantages of the SDR as a unit of account in connection with OPEC lending to developing countries at that time. As often happens at big conferences, there were too many papers and not enough time, and the programme was slightly disordered. As it happened, immediately prior to my own paper's presentation came one from an Executive Director of the IMF (who is best left unnamed). This presentation on the IMF's role and the perfection of its conditionality so distorted the facts as I understood them (and I had recently done some work for the G-24 on the subject) that when my turn came I tossed aside my paper and instead delivered a somewhat angry and totally extemporaneous lecture on the true nature of the IMF's proper role at the time, its new guidelines on conditionality (which were to take account of the special social and political circumstances of individual borrowing countries) and its apparent failure to follow them. As I finished and was preparing to enjoy (perhaps) some polite applause, an elegant silver-haired gentleman rose from the first row of the audience, came to the platform, warmly shook my hand and spoke to me. By now the applause was very loud indeed. The gentleman was, of course, the indomitable Raúl Prebisch, one of the senior patrons of the conference. I always remember him as he looked and acted to me on that day ... graciously and elegantly coming to tell me, when I had certainly misbehaved for the conference organizers, that it had been worth it: he agreed with me and would have done the same. I hope he would also approve of my somewhat better-prepared remarks today.

I. Globalization: Its Meaning and Implications

A great deal of nonsense has been written and said about “globalization” in recent years. Some has come from the political right, some from the political left; some from business and political leaders, some from NGOs and people in the streets. I am first going to risk annoying nearly everyone by making a case that the very term “globalization” has become so slippery, so ambiguous, so subject to misunderstanding and political manipulation, that it should be banned from further use ... at least until everyone is agreed as to its precise meaning and proper usage. In particular, those involved in economic and political policymaking and debate must, I insist, clarify their messages in this sphere if they are to be taken seriously.

The term “globalization”, as too frequently used, confuses two totally different phenomena. The first is the shrinkage in space and in time that the world has experienced in consequence of the technological revolutions in transport, communications and information processing. For a good many of us, though by no means all, the world has become a much smaller place. References to our “global village” or “spaceship Earth” or, more prosaically, “the global economy” capture the reality that what some of us may do in one part of the world carries greater impact on other parts of humanity and does so much more quickly than once was the case. Probably nowhere is this more dramatic than in the behaviour of the world’s interrelated 24-hour-a-day financial markets. This new “globalization” has bred more detailed and up-to-date knowledge of one another’s activities. But income and wealth imbalance have also created totally unbalanced information flows – like those for the wealthy via CNN – and what C. P. Snow has described as the “ultimate obscenity”: the rich sitting in the comfort of their living-rooms watching other people starve on colour television. (The only virtue in this “obscenity” is the inability of the privileged any longer to conceal their inaction by the excuse, always implausible, that they “did not know”. Today they know, and there can be no argument about the matter.) This new technology-driven “globalization” is the new reality to which we all are trying to adapt. There truly is no escape from it.

The second usage of the term, on the other hand, relates to matters of human policy choice – the degree to which one opens and submits oneself mindlessly to surrounding external forces. Individuals, firms, governments and NGOs all have choices. While globalization (in my first meaning) is a *fact*, and it may constrain some choices, it does *not* totally foreclose them in the way that many imply. Let me be a little more direct.

One cannot quarrel, in the sense of being “for” or “against” globalization, with globalization as *fact* (although, of course, one is at liberty to like it or dislike it). To equate globalization with external liberalization and full reliance on global “marketplace magic”, however, as some do, is logical confusion; and it is quite misleading. It is certainly convenient for those pushing an external liberalization agenda to be able to depict it as an inescapable concomitant of the globalization fact. But globalization (the fact) and external liberalization are, actually, logically quite distinct. Presumably globalization (the fact) will proceed more quickly if all countries externally liberalize – i.e. open to the world – their goods, services and factor markets (including, of course, their labour markets which liberalization enthusiasts are usually somewhat reticent about discussing as they preach the virtues of full and free mobility of capital). The trend toward

such external liberalization in recent decades has undoubtedly accelerated globalization's pace. This recent association of external liberalization *policies* with the technology-driven *fact* of globalization has contributed to the logical and terminological confusion which I so deplore.

External liberalization policy in its various dimensions involves political, economic and social choices. The effects of such liberalizations and opening-up are not agreed and certainly are not uniform for all places and times (e.g. see Rodrik, 1999; Rodrik and Rodriguez, 1999). The challenge – both at the national and global levels – is, through conscious policy choices, to make the new globalized system (an undoubted fact) work for maximum human welfare. The task before us all is to make globalization functional, to “civilize” it.

I know of few reputable developing country analysts or governments who question the positive potential roles of international trade or capital inflow in economic growth and overall development. How *could* they question the inevitable need for participation in, indeed a considerable degree of integration with, the global economy? The endless lectures by Northern leaders and heads of international organizations to policymakers in developing countries, whom they evidently believe to be incapable of perceiving their own interests, as to the inevitability (and benefits) of globalization and the virtues of participation in the global economy, are tedious and patronising. They should stop.

The real issues are rather more complex. They are matters of policy and they are often politically difficult. They relate, firstly, to the *terms* on which countries and their governments can and should interact with the new global economy. These are not matters conducive to “yes” or “no” answers; or slogans of the genre – “Get on the globalization train or you’ll be left behind”.

Secondly, they relate to the global rules and institutions that “govern” the functioning of the emerging global economy.

It isn’t at all obvious *either* (1) that further external liberalization (“open-ness”) is now in every country’s interest and in all dimensions *or* (2) that in the overarching sweep of global economic history what the world now *most* requires is a set of global rules that promote or ease the path to greater freedom for global market actors, and are universal and uniform in application.

If there can be said to be a public and/or intellectual mood in the world today, I would venture to say that it is one of scepticism on both counts. Whereas the relatively better-off have been doing quite well in the recent bursts of both globalization and liberalization, there is growing anxiety about the fate of the poorer, the more marginalised, the vulnerable and the powerless (e.g. UNRISD, 2000; World Bank, 2000; UNDP, 1999; UNCTAD, 1997). This sceptical mood is also, of course, reflected in many conclusions of the Trade and Development Board and innumerable other international assemblies both within and outside the UN system.

As the full implications of a globalized economy become more apparent, it becomes ever more evident that many of the *functions* of government, in particular the supply of public goods and the pursuit of social objectives, will somehow have to be undertaken at the global level. Yet there is nothing remotely resembling a global “government”. Nor is there one visible on any reasonable time horizon. Institutions for such purposes will nevertheless be constructed; and

international rules, laws and dispute settlement mechanisms to address them will evolve. So, probably, will international private sector codes and standards, introduced on a voluntary basis, and, in some instances, “hybrid” private–public arrangements to achieve the same ends. The most important implications of the globalization of world markets, then, are (1) as already implied, the pressing need for development of appropriate policies, at national, regional and community levels, for optimal *use* of the global economy in the interest of national, regional and local human welfare and development; and (2), perhaps even more difficult, the *greatly* increased need for improved arrangements for global economic governance. Given the limitations of our knowledge and the enormous diversity of national, regional and local circumstances, it is difficult to generalize about the former; that, in turn, implies the need for global governance and rules systems that eschew over-harmonization and “one-size-fits-all” approaches. Global economic governance will constitute the prime focus of this lecture.

The plan for the use of my remaining time (which I offer in advance so that some may be able to plan their exit) is as follows. First, as background for discussion of the global (market) economy, I shall discuss the functioning of markets, some of their problems and their needs, and related issues. Secondly, though no political scientist, I plan to discuss the critical role of politics in economic policy, some of the limitations in what seem the most democratic of political processes, and some of the political imperfections in current global economic governance. Then I direct my attention, first, to current issues in global financial governance; and second, to current issues in the governance of global markets and the role of the WTO. I shall make a number of suggestions and appeals during the course of these remarks on global economic governance; I therefore, finally and briefly, try to bring them together in a summary and conclusion.

II. Markets and Their Problems

Market forces are powerful ... and they can be powerful for good. But every professional economist, and all but the most ideologically encrusted, recognize that, left unchecked, they can yield socially deleterious outcomes. The economic theory of perfectly competitive markets takes careful account of “market failures” in the forms of externalities, public goods and the like; and begins, it is important to remember, by entirely abstracting from the equity of income distribution and the distribution of power. Empirical reality also presents us with an imperfection-ridden market system – imperfectly competitive, imperfectly informed, with many markets missing entirely. It also presents us with grotesquely inequitable “initial conditions”. To many, if not indeed by now the majority, inequities in the distribution of income, wealth and power are both the most important *determinants* of economic outcomes in market systems and the most important *targets* for international economic policy.

Markets have never, of course, been the sole or even the primary basis for human interaction. Markets are not involved when we interact within families, within private businesses (including transnational corporations), or within communities, universities, governments or indeed all manner of bureaucracies, nations and international institutions. Within these various institutions there are all manner of relationships – hierarchical ones, gifts, gift exchanges, and other transactions that do not lend themselves easily to simpleminded “market analysis”.

Institutions, customs, laws and traditions carry influence upon the functioning of markets. The people of the “transitional economies” have learned, to their very great cost, that there are important institutional and legal prerequisites to the effective and socially harmonious functioning of markets, without which free market behaviour can approximate the law of the jungle. More recently, financial crises in scores of countries have underscored the social and economic disorder that may arise when markets function freely within fragile and/or inappropriate institutional frameworks. Modern economic theory, in fact, devotes a great deal of attention to the origins, functioning and role of non-market institutions.

Most economists now also recognize that there is a vast, unrecorded sphere of extremely valuable daily activity, that *should* be described as “economic”, involving the care of one’s fellow human beings (notably children, the disabled and the aged). In this vast so-called “economy of *care*”, to which feminists have correctly directed attention, there are typically minimal, if any, material rewards; and market behaviour (involving the rational pursuit of self-interest) has very little to do with its functioning, except in the minds of some benighted economists, forever warped by their own crude assumptions that no other kind of behaviour exists.

Modern economic theory also recognizes that the short-term pursuit of individual self-interest in less than “perfectly” competitive markets can *negate* the achievement of collectively beneficial objectives. Apart from the well-known need for certain public goods – like defence and social stability – it elaborates models in which individuals may be able to achieve their objectives best by *cooperating* with others, particularly when they participate with them repeatedly rather than merely in one-off situations in which there are no implications for future responsibility or reputation. Indeed one of the most interesting frontiers in theoretical economic research is

exploration of the optimal means of achieving such cooperation when it is clearly in everyone's collective interest to do so. Such "collective action" issues obviously are linked to the role of non-market institutions.

In short, markets may be important and market incentives can indeed be powerful, but they are neither all-pervasive, nor do they solve all problems. In their proper context, with appropriate safeguards and institutions, markets and their incentives can do much good. It is also, of course, well-known that great harm can be done when governments try to replace or outdo markets in circumstances where they do not have the capacity effectively to do so. The trick for society, both at the national and at the global level, is to harness the power of markets in the social interest. That, and not the defence, or attempts at the "perfection", of markets, through thick and thin, has been the traditional role of the economist. (It is worth recalling that modern economic science found its origins, with Adam Smith, in moral philosophy.)

These and other limitations of the pure market model and market system are not disputed among professional economists, much less social scientists of broader competence. Whatever one may think of a market-driven economy, no one would want a completely market-driven society. Hence the universal agreement on the need for laws, rules, and institutions to "govern" the functioning of markets and of individual and corporate behaviour. What these look like is, of course, the very stuff of politics ... as well, no doubt, as of moral philosophy.

III. Politics and Its Problems

Political processes and the governmental decisions to which they give rise are influential, within all countries, in the determination of the level, composition and location of economic activity, and in the distribution of income and wealth. Even though world government does not exist, political processes carry such influences within the global economy as well. As noted earlier, global economic governance, of sorts, already exists and continues to evolve. Its evolution has been driven by political processes and power.

In political systems, whether “democratic”, oligarchic or dictatorial, whether national or international, money talks. “He who pays the piper” still generally “calls the tune”. In democratic politics, as in market economies, systemic imperfections abound. In the US, for example, it has been estimated by one independent research body that political parties and their supporters spent \$3 billions (!) on this year’s elections, and another has declared that “the federal election system has collapsed into a system of organized bribery” (quoted in *Financial Times*, 25 October 2000). Even *Business Week*, the American business magazine, recently ran a front-page headline asking the question: “Too Much Corporate Power?” to which, according to the story which followed, the majority of Americans are today answering “yes” (11 September 2000). Corporate influence over US and other major powers’ political decision-making can obviously carry profound spillover effects for rule-making in the global economy.

Large private corporations purchase influence within all so-called democratic societies. As all Geneva trade diplomats know, their influence over ostensibly international negotiations is also considerable; witness the role of the pharmaceuticals industry in intellectual property debates and the banking and financial sector in those over capital account regimes and trade in financial services. The international activities of business lobbies are subject to no limits or registration requirements or regulation. The bulk of their activity is untransparent to the public. If the public sees them at all, it is only “through a glass darkly”. Their activities, though usually formally legal, constitute a graver threat to the prospect of democratic and accountable global economic governance, and therefore ultimately to sustainable global human development, than the corruption in developing countries (and payments made there by Northern businesses) which have so far received so much more attention in the OECD and the international financial institutions. They must be “exposed”, i.e. made transparent, and their effects analysed and, if baleful, addressed. Any UN Global Compact with private business that does not address this issue cannot be taken too seriously.

If money impacts heavily upon both domestic and international political processes, there should be no illusions as to where the bulk of the power in decisionmaking relating to the global economy is likely to continue to rest – that is, with those countries, firms and organizations that are economically (and, it must be added, militarily) the strongest. Still, universally recognized democratic principles (recognized at least at the rhetorical level) provide for equal participation of weak and strong individuals in political processes. There exists a strong case for attempting, at the global as at national levels, to construct global governance arrangements that, at least to some degree, reflect such democratic principles (and, as implied earlier, for setting bounds upon the exercise of influence by the most wealthy and powerful).

Needless to say, current governance arrangements for the global economy do not even remotely reflect the democratic principles that most analysts and countries espouse, at least in their theory and rhetoric. Until now, such global economic governance as exists has been profoundly undemocratic. The peoples of the developing countries, accounting for over 85% of the world's population (and that percentage is rising), are severely under-represented. Decision-making on key global economic issues remains highly concentrated in the major industrial powers and the main international financial institutions (the International Monetary Fund, the World Bank group and the Bank for International Settlements) which they control. The selection processes for the leadership of key multilateral financial institutions demonstrate zero regard for the principles of due process that at least, to some degree, are found within democratic nations or even within many large private corporations. If new processes and systems are to carry credibility and legitimacy (and therefore are to be politically sustainable) they must provide for greater collective influence and power for the developing countries.

On the basis of experience to date, there is reason to fear that the future evolution of governance arrangements for the global economy will continue to be seriously biased in favour of the interests of industrial countries, particularly the G-7 countries, whose governments and private firms (and even, in some cases, NGOs) now exercise disproportionate influence over global economic affairs. To the extent that future global governance arrangements are undertaken through or in conjunction with the private (or non-governmental) sector they are likely to be even more biased toward Northern interests and perceptions than they already are in intergovernmental institutions and processes. Consequently, there must be concern as to whether emerging global economic governance arrangements will grant sufficient weight to the imperative of sustainable global human development and the struggle against human poverty (Culpeper and Pestieau, 1995; Commission on Global Governance, 1995, chapter 4; Helleiner, 2000a).

However great the divergence of political views on the appropriate role of government at national and local levels, there is now broad consensus that the global economy is under-governed in at least some respects. G-7 Finance Ministers seek improved governance of financial markets. Others in the G-7 seek harmonized rules and "level playing fields" for their private firms. Environmentalists fight to protect the planet's biodiversity, ozone layer and temperature levels. For the developing countries and many NGOs the prime issues are poverty and empowerment.

It would be easy to despair of the short- to medium-term prospect of developing appropriate political processes and reasonably fair governance arrangements for the emerging global economy. At the same time, however, it is important to recognize how far the world has come, albeit in spurts and actually only in response to costly crises. The existence of the UN and its specialized agencies would have been hard to imagine at the turn of the twentieth century. Imperfect as they and the new WTO undoubtedly are, their existence reflects worldwide recognition of certain global governance needs. The existing multilateral institutions are the product of their history. They can and will look differently in another 50 and 100 years. Political processes, including events in the streets, will continue to drive these changes. Significant change there must surely now be. But, just as surely, it is unhelpful to try, as some in the streets seem to want, to shut them all down.

It will indeed be a major challenge not only substantively to envisage and design appropriate institutional and legal requirements for global economic governance but also to develop effective and legitimate *processes* – processes that are participatory and fair – to move the world toward its required new governance system. If the global rules system is to be “harmonized” through deeper integration among national economies within an agreed overall framework, as most now forecast and many advocate, there must, above all, be full and reasonably democratic representation as the rules and framework are created and implemented. There can be “no harmonization without representation”.

The global political tide is already running – in the G-7, the OECD, and Northern civil society, as well as in the G-77 and the UN – in the direction of reform in the major institutions of global economic governance: towards greater transparency, accountability, democratic representation, and prime concern for sustainable human development throughout the shrinking planet. The immediate problem is that, for the present, the world lacks *political leadership* of the required global vision.

The world’s one super-power, particularly its elected Congress, seems to have little interest in multilateral organizations unless they can be used as instruments of its own fairly short-term interests. For the present, one cannot expect leadership towards the kinds of global economic governance processes and institutions that the world increasingly requires from this source – a country that, despite its wealth, has the weakest aid performance record in the OECD (0.1% of GNP of which 30% goes to the Middle East); remains in serious arrears in its financial obligations to the United Nations; is so jealous of its sovereignty that it fails to ratify even some of the most obvious of international conventions relating to the world’s most vulnerable (including those relating to the rights of the child; economic, cultural and civil rights; discrimination against women; forced labour; freedom for collective bargaining; and land mines) (UNDP, 2000); and continues to oppose effective international conventions on greenhouse gases and the preservation of global biodiversity. There is little reason to expect more leadership from the US Government over the next four years.

Others must therefore, for the present, come together to establish processes, make proposals, analyse future possibilities, and, where possible, initiate new regional and functional arrangements to begin to address the new governance realities on their own. It is a time when there is genuine opportunity for fresh ideas and initiatives to be discussed in forums other than the usual power centres. It is a time for “middle powers” and regional or other groupings of developing countries to join, as rarely before, in sustained pursuit of their common interests in a well-functioning global economy.

Whatever the formal structure of governance and decision-making in international organizations, there is underutilized potential for increased influence on the part of the small and poor through increased cooperation with one another. Such cooperation can take many forms – ranging from merely *ad hoc* issue-specific collaboration to more institutionalized arrangements for information exchange and the development of common positions.

Developing countries have not as yet been very successful in efforts at collective action within the principal multilateral economic institutions – the IMF, the World Bank group and the WTO. They have had neither an effective equivalent of the G-7 Economic Summit nor anything remotely resembling the industrialized countries' Organisation for Economic Cooperation and Development (OECD). Such cooperative research and technical support operations as they have had have been quite weak. Developing country interests have therefore tended to be analysed at greatest length in the multilateral organizations themselves; such analyses are subject to obvious constraints (not least the influence of the industrialized countries within these bodies) from which more independent such work would be free.

It is true that the economic and political interests of individual developing countries often diverge, that mutual fears and suspicions (not to speak of armed conflicts) can be found within the developing country group, and that international cooperation can, in such circumstances, be difficult. But they also have extremely important elements of common economic interest in the global arena. In this same arena industrial countries with divergent interests pursue those that they hold in common to far greater effect.

The United Nations (through its relevant agencies) can and should play an important facilitating role in “nudging” the world in the direction in which a majority of its members already agree it urgently needs to go. To some degree, UNCTAD, UNDP, the Department of Economic and Social Affairs, and the regional commissions are already doing this. They must continue; and even intensify their efforts. The UN Secretary-General himself has more “soft power” in this sphere than he has so far chosen to deploy; should he choose to use it, there are many ways in which he could more actively encourage appropriate political or quasi-political processes towards improved global economic governance.

IV. Global Financial Governance

Serious efforts to prepare appropriate governance arrangements (international financial architecture, not plumbing) for the global monetary and financial system have scarcely begun. (Culpeper, 2000, has a good account of the current state of play.) The central multilateral institutions concerned with the overall functioning of the global economy and the global monetary and financial system remain the IMF and the World Bank Group. Formal voting power therein is determined by a formula assigning primary weight to economic strength with the result that their governance is, by far, the least democratic of the major multilateral bodies. Whereas developed countries, as defined by the World Bank, account for only 17% of voting strength in the United Nations (and in the Global Environmental Facility), 24% in the WTO, and 34% in the International Fund for Agricultural Development (IFAD), they account for 61–62% in the World Bank and IMF (Woods, 1998). The US also retains its “blocking” voting power (i.e. effectively, veto power) in the principal decisions of the Bretton Woods institutions.

Far as the IMF and World Bank are from reasonably democratic governance, they at least incorporate *some* degree of developing country representation and participation. In the various meetings of industrial countries on economic and financial matters in the G-7/G-8 Economic Summits; the meetings of G-7 and G-10 Finance Ministers; the meetings of central bank Governors in the BIS; and the various committees of the OECD, there is virtually none. Within the past few years, the BIS has invited the participation of several of the larger and more significant developing countries, and the OECD has incorporated Mexico and the Republic of Korea into its membership; but these are marginal changes, in the nature of symbolic gestures, rather than substantive changes in the nature of these organizations.

It is probably more significant that several emerging market economies have been invited to participate in the Financial Stability Forum (from 1998 onwards) and the new Group of Twenty (from 1999 onwards), both of which were initiatives of the G-7 to carry forward the international discussions of financial architecture, outside the Bretton Woods institutions. Increased developing country representation in the key current discussions of international monetary and financial reform is to be welcomed. Both of these initiatives, however, are primarily directed at the narrow question of the prevention and resolution of *systemic* financial crises, rather than the much wider range of reform issues in the financial system that require attention.

The G-20 is severely flawed in that it contains no representation either from the poorest and smallest developing countries or from the European “like-minded” countries (the Nordics and Dutch) who, on the basis of prior experience, might be expected periodically to speak on their behalf. Presumably, this is because the poorest and smallest are unlikely ever to constitute any systemic threat. But there are major “architectural” issues surrounding the provision of adequate development finance to these countries and their peoples. They go well beyond the issues surrounding the “HIPC initiative”, the still wholly inadequate global response to low-income country debt servicing, which should have been frozen, without penalty, long ago.

The aid relationships of the past are no longer either functional or acceptable. The rhetoric, if not yet the practice, of the aid donor community has already changed radically – in

favour of more transparent and coordinated assistance in support of locally-owned rather than donor-driven programmes, under recipients' rather than donors' control. Change in practices will eventually follow the change in rhetoric, however slowly it comes. It can be sped by much improved and independent monitoring of aid donor performance at the country level, which remains virtually non-existent (as well as continued monitoring of recipients). (For more details as to how this might be done, see Helleiner, 2000b).

Nor does the G-20 possess any mechanisms either for reporting or for accountability to the broader international community, such as the constituency system provides within the IMF and World Bank, or any provisions for non-governmental inputs or transparency.

The G-20 had the potential, and perhaps it still has some, to make a start. But its initial processes have been all wrong. Its origins in the G-7 reduce its legitimacy; its membership is not fully representative; its mandate is much too narrow; and its procedures lack provisions for non-governmental participation, accountability or transparency. As at present constituted, it is unlikely to lead anywhere. Its very existence deflects energies from more appropriate and hopeful processes and agendas. Here are the four principal requisites for its possible rescue:

- (i) alter its membership to improve its representativeness (while converting the IMF/Bank from members to observers) and institute some sort of "constituency" system to ensure *full* reporting and a sense of ownership for non-members;
- (ii) declare its accountability jointly to the UN Secretary-General, the Managing Director of the IMF and the President of the World Bank, with the expectation that its report(s) will be presented to the UN's ECOSOC, and the two Executive Boards respectively, and to the forthcoming UN Conference on Financing for Development;
- (iii) make its discussion papers, documents, and reports publicly available, and encourage public and parliamentary debate thereon throughout the world;
- (iv) significantly expand its agenda to address the full range of problems and issues in the international monetary and financial system, as addressed for instance in the UN Task Force Report, and establish technical subcommittees to address them all, as appropriate.

The expanded agenda would include:

- provision of a more effective system for global macroeconomic management, including provision for adequate liquidity and emergency responses;
- a stable and equitable system of development finance for all developing countries and finance for development-related scientific research, especially in health and agriculture;
- an agreed framework of rules and obligations for international financial flows (including provision for prudential regulation of international financial markets and institutions), with a capacity for their effective and equitable application;

- increased representation and participation of developing countries at the decision-making level of international financial institutions to properly reflect developing countries' growing role in the world economy, including credible processes for the selection of chief executive officers (Kapur, 2000) and a more democratic allocation of voting power in these institutions; and
- most important of all, concrete provision of the financial requirements for the supply of the key elements of human development for all of the world's population.

Ambitious? Yes. Impossible? Not at all.

(Let me add that, despite limited resources, the United Nations' staff have already made significant contributions to the efforts in this direction, most notably through UNCTAD's Trade and Development Reports, and the Report of the UN Task Force on International Financial Architecture. If they can keep their nerve and face down US and G-7 pressure, UN staff can also do so in the preparation of the again-postponed UN Conference on Financing for Development.)

V. Global Governance of Markets – and the WTO

What about the trading system and the rules to govern the ever-deepening integration of national economies into the global market economy? A standardized rule system can be a bulwark against bullying by the strong. But if the rules are constructed by the strong to protect their own interests or if there is imbalance in capacity to implement them or both, such a system may be worse than useless to the relatively weak.

(Corporate social responsibility also has a place but it would be naive and foolhardy to rely on it – or for Global Compacts dependent on it – for very much. States *must* make rules for the effective functioning – in the social interest – of markets.)

Evidently process is everything in these matters – how are the rules established? who sets the agenda for the rule-setting? in what forums and through whose inputs are disagreements analysed? how is adherence to the rules monitored and policed?

The World Trade Organization (WTO) is obviously the key global institution in this arena. Its name does not accurately describe its actual sphere of activity. What sort of World *Trade* Organization is it, after all, that doesn't seriously concern itself with trends and fluctuations in its members' terms of trade, particularly those of its weakest and most vulnerable members? or with "burdensome surpluses" (as the ITO charter called them) in primary commodity markets? or with restrictive business practices and abuse of dominant power in international goods and services markets? While it has so far paid scant attention to such obvious *trading* issues it has moved deeply into such *domestic* policy issues as intellectual property regimes, domestic investment and subsidy policies and some would even push it into labour standards and environmental practices, all of which may or may not, in fact, be "trade-related"? On the basis of current practice it might better be called the World Market Harmonization Organization.

As everyone here knows, the WTO's functioning is at present still stalled. Many of its members are deeply disillusioned by the experience of its first few years of existence. The world's NGO community has also launched a major assault on its rules and processes, indeed on its very legitimacy. I do not here want to enter into the range of WTO disagreements over "implementation", the TRIPs agreement, agriculture and textiles, standards (especially SPS), "special and differential treatment", the functioning (some would say abuse) of the dispute settlement system, the extent and nature of technical assistance, disappointment over the "integrated framework" for the least developed, and all the rest. I prefer to address the more fundamental issues of purpose, process and legitimacy.

I doubt whether there is any longer much dispute over the fact that many developing countries signed the Marrakesh Agreement without sufficient appreciation of its implications and/or in the expectation of considerably more change in industrial country protectionist practice than has so far materialized. Nor, I suspect, is there much disagreement that industrial countries vastly overestimated developing countries' capacities (and, as it turns out, willingness) to implement all of its elements within the agreed timetables. There is little escaping the fact that the WTO got off to a very bad start. The question now is what can be done about it.

In reality, the capacity of many, perhaps most, developing countries to participate effectively in the WTO system – to take advantage of their rights and to defend their interests, indeed even to meet their obligations in the WTO – is very much in doubt. The WTO is a member-driven organization in which delegates from member countries must be actively involved in its day-to-day activities if their interests are not to be ignored. It has been estimated that WTO processes involve at least 45 meetings per week in Geneva, most of which are technically complex and highly “legalized” (Blackhurst, 1997). The requirements for effective participation place an enormous burden on resource-constrained smaller and poorer countries. When they are represented at all, their staffing is inadequate for handling the ever-increasing complexity of issues and the rising number of meetings and obligations now characterising WTO processes. Hence they are *purely* “rule takers” as opposed to “rule makers”. Many, perhaps even most, developing countries are not at present in a position to play serious roles in the consensus-building consultations that go on inside and outside the formal Geneva meetings.

The WTO’s predecessor, the GATT, was a fairly secretive institution with its major decisions, despite its formal structures, disproportionately influenced by the major industrial powers. Often, the most critical issues were discussed and “resolved” in meetings between the Director-General and a limited group of the more powerful countries. As was the case in most of the earlier rounds, decision-making in the Uruguay Round negotiations was “pyramidal” in structure in that the major trading countries (those at the “top”) had implicit, but nonetheless effective, veto power over the negotiations’ overall outcome (Winham, 1998). Thus, through various informal consultations, the major developed countries (and occasionally a few developing ones) agreed among themselves on the major issues and presented the results to other members, essentially for ratification.

These GATT traditions cannot now be carried forward as the *modus operandi* for the functioning of the WTO, although until Seattle some appeared to think they could. The “deeper integration” which is now on the WTO negotiating and dispute settlement agenda has generated public concern in the North (and, to some degree, also in the South) and challenge from many governments of the developing countries. At the same time, more developing countries appear to have realized the costs of their failure to be sufficiently prepared, involved and united in the Uruguay Round negotiations under the GATT, and the creation of the WTO. Many of them not only view the outcome of those negotiations as fundamentally harmful to their interests but also now recognize both their need and their potential for greater influence in future negotiations under the WTO.

One of the early casualties of the current difficulties in reaching agreement among WTO-member governments must therefore be its present overall system of governance. Some more efficient system of representative decision-making will have to be devised for a membership organization of such unwieldy size and such vast and complex a mandate. Failing its development, whatever the WTO’s formal structure, its decision-making risks reversion to previous “Green Room” practices in which the main players exercise disproportionate and inappropriate influence behind closed doors. To achieve equity in representation and improve overall transparency of processes, and thus to restore developing country confidence in the WTO system, will be a major and top-priority challenge.

Another casualty must be the concept of the “single undertaking” (originating in the Uruguay Round) in which member countries are required to agree on (and abide by) an *entire* set of rules, multilaterally negotiated within the WTO. More flexible arrangements for joining and/or opting out of particular subagreements within the overall organization, while maintaining a “fundamental core” of tenets and practices to which all subscribe – arrangements analogous to those in the later stages of the GATT – would be more conducive to future agreements among so large and so varied a membership; and are therefore also likely to be a requirement for the restoration of confidence, and for further progress, in the WTO system.

What the WTO most requires, then, is *not* now an attempt at a new Round of “global” negotiations which, even if labelled a “Development Round” for public relations purposes, would probably, under present arrangements, only recreate the imbalances and inequities of the last Round. (It is worth recalling that the Marrakesh Agreement was itself the product of a Round that was launched with much fanfare about the symbolic importance of its location in a developing country ... and where did that lead?) Rather, what is required is a *pause* in current processes – to permit a deliberate reconsideration, even a formal redefinition, of the fundamental purposes of the organization; and a thorough and independent review of its current capacity to achieve them.

My own view is that the WTO needs to make it unambiguously clear that it, like the World Bank and now even the IMF (after decades of forceful denial), is to be a “*development institution*”. At present it is not one; nor is it now seen as one. The WTO’s *raison d’être* is today seen as the achievement of an agreed set of rules, a “level playing field”, for economic transactions within the global economy. It is often presumed, within WTO secretariat and G-7 circles, that the universal application of the current rules (and others still to be agreed) will promote development for all; but that is theory or hypothesis rather than reality. Many challenge it ... and with reason. Even though the WTO charter formally commits it to poverty alleviation and the promotion of sustainable development, these are *not* seen by anyone as primary WTO objectives. Despite a certain amount of rhetoric and symbolism to that effect, development was *not* a primary purpose of the Uruguay Round (or earlier GATT Rounds) or the Marrakesh Agreement. Even the most optimistic of the somewhat dubious models of the likely future consequences of the Uruguay Round predicted income losses for some of the poorest countries. And everyone knew these models missed most of the negotiation story.

In the future, the WTO should be assessed *primarily* on the basis of its achievements towards poverty reduction and sustainable global human development. This statement of purpose is one that, I believe, its General Council could approve. Whether it does or not, what is urgently required is a thorough and independent review of the developmental consequences of the content and actual implementation of the Marrakesh Agreement, including the capacity of the WTO’s current governance arrangements and staffing to promote global development in the future. The potential development role of the WTO is so important for the global economy (whether for good or ill) and many of the battles within the WTO are now so politicized, that any independent group to undertake a review such as I suggest might best be appointed by the Secretary-General of the United Nations. It needs to be liberally funded and given time enough to do its job thoroughly and carefully. Its report could provide critical independent input to a politically stalemated WTO, as well as to ECOSOC and to the (now intensely interested) broader international community.

I am realist enough to recognize that reconceptualization of the WTO as a development institution may not happen quickly (though I am fully confident that it eventually will). My suggested review will also take time. It seems unlikely to me that there can be much change in the WTO in the short- to medium-run. As long as the WTO and the international rules system, including the negotiation of new bilateral and plurilateral agreements, continues along its current path, there is no immediate option, therefore, but to seek better protection for the weaker members of the international community on a case-by-case basis. Today's rules systems are complex and their implementation requires legal inputs that are expensive. The mere threat of US or European anti-dumping action, for instance, is enough to discourage small developing country exporters without the wherewithal to launch a legal defence. Similarly, when large countries breach the agreed rules at the expense of the small and poor, the cost of a legal challenge may exceed the financial capacities of the latter (or, in some cases, even the relevant trade losses).

Within many national jurisdictions, the legal rights of those who are unable to afford legal costs are protected by publicly-funded provision of legal aid; it is unfortunately typically grossly underfunded and wholly inadequate to its task, but it is something ... and it acknowledges the need. There has been growing recognition that analogous international arrangements are required to protect small and poor countries against bullying by the strong in the areas of international trade and investment. Recently a small "centre" to help the smaller and poorer members protect their interests in the WTO system was launched, with the financial support of a consortium of developing countries and some of the more progressive aid donors, in Geneva. Its efficacy is obviously still untested but, like its domestic antecedents, it seems unlikely that it can make more than a minor dent in the (quite major) problem.

Current efforts at technical assistance for WTO-related purposes remain utterly inadequate and frequently, e.g. when simply "selling" WTO rules, they are misdirected. What now seems most needed is a *major* international effort analogous to that of those honourable elements of the medical profession recently recognized by a Nobel prize. Let us have an organization of "Lawyers Without Borders" (with some economists, I hope, thrown in among them) – committed not to the earning of the highest fees from the wealthiest clients but to the principled defence of the rights of the poorest and weakest in the global economy's legal system and the building of their capacity to defend themselves. Needless to say, it could also function usefully in a variety of non-WTO-related "cases" – helping to negotiate with foreign investors and creditors, draft domestic legislation, negotiate bilateral and regional agreements, and the like. Such principled lawyers (and economists) do exist; they already work without fanfare or much reward in many countries. Isn't it time for the launch (and, of course, funding) of such an international apolitical, and therefore necessarily non-governmental, organization – both to create fairer international outcomes and to provide hope and inspiration for otherwise jaded young students in schools of international law and economics around the world, particularly those in developing countries? Though less dramatic than the activities of *Médecins sans frontières*, the income and welfare gains for the poorest countries which such an organization could achieve might save just as many lives.

VI. Summary and Conclusions

Globalized markets operate within politically defined rules and governance institutions. The current global rules and economic governance institutions are in need of repair, updating and re-legitimization.

Governance is not simply a matter of designing an optimal system and then putting it in place through whatever mechanisms are available (including coercion if necessary). Rather, it should be thought of as a communicative and consultative *process* through which disputes are resolved, consensus is built and performance is continually reviewed. No less critical to its success than its policy instruments is the forum that a governance arrangement must provide for the expression of claims, review, and discussion of continuing reform. Above all, good governance is good process. To develop the required new arrangements for the effective governance of the global economy one must therefore *begin* with an effective and credible process – ideally a process involving civil society and (with appropriate limitations) business, as well as governments and existing international organizations.

Current efforts to improve governance in the newly globalized economy are heavily biased towards the interests of the governments, firms and peoples of the wealthiest of the world and this bias will not easily be overcome. Whereas there are signs that larger and potentially more influential developing country players in the global economy may eventually be admitted to global governance and decision-making councils, in the interest of their very effectiveness and efficiency, the smaller and poorer risk continuing exclusion.

Greater effort will have to be made by developing countries themselves, who, despite increased activism in some areas, have still been fairly quiescent in recent years, to develop positions that are in their agreed collective interest and then to press them energetically in the relevant multilateral fora. An essential early step is for an organized effort to be made, within the South, to exchange ideas and formulate their own agreed positions on international financial architecture and the future of the WTO, wherever such agreement is possible, *prior* to entering into detailed discussion and negotiation with the more powerful actors who still are accustomed to setting the terms for international policy debate. Negotiations toward improved arrangements for the governance of the global economy, if they are to be truly effective, require that the developing countries be better prepared for them; and that they take place in mutually agreed and representative forums. Better preparation will require increased resources, and the strengthening of relevant research activities and capacities within the developing countries and their regional and other cooperative institutions. Such reforms are perfectly feasible and long overdue. Developed countries' long-term interest in effective global economic governance should lead them both to assist in such strengthening of developing country capacities and to the development of improved negotiation processes and fora -- ones that carry broader legitimacy and therefore have better prospects of genuine success.

Can the global economy be civilized, be made more civil? Yes, it can. But there are powerful political and economic forces to be overcome.

It will require longer-term and appropriate vision on the part of state leaders and peoples, particularly in the industrialized nations who now exercise most control over events – *not* the vision of a free-market, level-playing-field, global economy for which many now seem to muster enthusiasm, but *rather* a vision of humane global governance, with celebration of humanity's diversity, promotion of democratic processes, and social and economic justice and human rights for all. Such (the latter) vision will see trade, financial flows and macroeconomic stability as no more than instruments of its objectives rather than as ends in themselves. Vision and rhetoric (of which we already have quite a lot) will obviously have to be accompanied by concrete action – action rising far “above” that for which powerful corporate and political interest groups may clamour.

I have argued, repeatedly, that appropriate *process* is absolutely critical to success. I have suggested an immediate start through “salvaging” alterations in the mandate, membership and functioning of the G-20 in international finance. In the sphere of markets, rather than wasting further energies in a doomed effort to launch a cross-the-board “Development Round” under the existing WTO arrangements, I suggest instead a reconsideration of the WTO's fundamental purposes to ensure its conversion into a “development institution”; and early initiation of an independent review of the WTO's capacity, under its current rules, arrangements and staffing, to do developmental tasks. Progress thereafter, I have argued, is unlikely if “single undertakings” are to be required. A new independent international legal advisory organization should also quickly be launched.

However one proceeds with the task, “civilizing” the global economy will require steady and sustained change; it will probably take place incrementally rather than in “Big Bangs”. It will require a constructive mix of political statesmanship “above” and supportive political pressure “from below”. It should not be necessary to have *all* countries on board at *every* stage and in *every* dimension of global reform, not even the most powerful. Those who are ready can and should together move forward (or in some cases appropriately backward) in whatever ways they can. “Middle powers”, non-G-7 members, and groupings of developing countries can play a critical role in promoting and initiating appropriate change. The UN can play a major role as its facilitator.

I certainly do not want to sound as if progress will be easy or automatic. There are bound to be periodic setbacks, and progress is likely, in fact, to be slow. Yet I, for one, am confident that it can and will come. And I'm *sure* Raúl Prebisch, if he were with us today, would urge us to get on with the effort.

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